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Bloomberg BNA

Daily Environment Report

Afternoon Briefing - Your Preview of Today's News

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Trump Administration Asks Court to Halt Clean Power Plan Review

Posted March 29, 2017, 9:42 A.M. ET

By Andrew Harris and Jennifer A. Dlouhy

President Donald Trump took yet another step toward dismantling his predecessor's climate change legacy, asking a federal appeals court to halt its review of carbon-emission rules for power plants.

Trump, who famously called climate change a hoax in a 2012 tweet, signed an executive order March 28 that starts unraveling a raft of rules and directives to combat climate change. That's now been followed by a bid to temporarily place on hold a 26-state suit challenging the centerpiece of President Barack Obama's environmental agenda—the Clean Power Plan—so the new administration can dismantle it ahead of a ruling on its legality.

The request is the strongest sign yet that the U.S. may back away from Obama's commitment to a 197-nation climate change accord, though the White House hasn't taken that step.

Asking the court to halt its review is the easy part; getting it to agree on next steps could be more difficult. Since the rule was finalized, the new administration must go through the rulemaking process again to undo it, said Villanova University law professor Todd Aagaard. “They can’t kill it,” outright, Aagaard said.

The Environmental Protection Agency will need about a year to administratively remove the CPP from the federal regulatory landscape, while justifying that reversal, allowing for public comment and still meeting its Clean Air Act obligations. The result will almost certainly be challenged by the same green groups and states that initially defended the rule.

The case is State of West Virginia v. Environmental Protection Agency, 15-1363, U.S. Court of Appeals, District of Columbia Circuit (Washington).

Exxon Dealt a Blow as Texas Judge Sends Climate Suit to New York

Posted March 29, 2017, 03:21 P.M. ET

By Erik Larson

A federal judge in Texas dealt Exxon Mobil Corp. a major setback in its bid to derail fraud probes by New York and Massachusetts over the company’s public disclosures regarding climate change, by sending the case to a court in Manhattan.

U.S. District Judge Ed Kinkeade in Dallas on March 29 said Texas wasn’t a proper venue for the case to be heard. New York Attorney General, Eric Schneiderman, had argued the case belonged in his state. Exxon contends investigations were started in “bad faith” after meetings between the states and environmental groups.

“The merits of Exxon’s claims, which involve important issues, should be considered in the proper venue,” Kinkeade said.

Land Swaps Let Permian Drillers Expand Shale Wells on the Cheap

Posted March 29, 2017, 03:25 P.M. ET

By David Wethe

Horizontal drilling in the Permian Basin is creating a new kind of swap meet.

Working with fresh technology that lets producers drill longer wells than ever before, companies such as Pioneer Natural Resources Co., Parsley Energy Inc. and Double Eagle Energy Permian LLC are increasingly haggling with other producers for slivers of land that allow them to extend the reach of their drilling with hardly any acquisition costs.

Prices for Permian drilling rights can run as high as $60,000 an acre. Trading land allows companies to drill the longer wells using ground a second company probably won’t develop, a win-win situation, said Bryan Sheffield, Parsley’s chief executive officer. But developers should take advantage now, because the practice likely has a low life expectancy.

“The trade rush is happening now,” said John Sellers, co-chief executive officer at Fort Worth-based Double Eagle, which built much of its current position in the Permian from dozens of trades. “The golden era of trades is probably going to happen over the next 18 to 24 months. Then people are going to really have their positions buttoned up more.“

Double Eagle, which is in the process of selling about 71,000 acres in the Permian to Parsley for $2.8 billion, has found that trading is the best way to catch the attention of larger players whose mineral rights he covets.

Land as Currency

“Land is really a currency out here,” Sellers said. “Without it, it’s really difficult to do trades. Opening up your wallet doesn’t really get it done. You have to have acreage they need as much as you need acreage from them.“

Like the general manager of a pro sports team trading players, Sheffield said explorers keep tabs on competitors’ assets. In a field that’s been drilled for decades, there are virtually no more secrets in the Permian. Therefore, it’s in everyone’s interest to trade.

“The play is already proven,” Sheffield said in an interview March 28 at the Scotia Howard Weil Energy Conference in New Orleans. “If you slow it down and restrict a trade, you’re destroying value on your acreage, and the other guy is destroying value on their acreage, because their acreage is going to get trapped in between two long laterals.“

Within the past decade, the shale boom was born when explorers for the first time combined two older techniques: drilling wells sideways under a mile or more of oil-bearing rock and hydraulic fracturing, which blasts water, sand and chemicals underground to release trapped hydrocarbons. Before that, the most common way to get oil and natural gas was to simply drill vertical wells.

Doubling Length

Now, during the worst crude-market crash in a generation, explorers are looking to get more oil for less money by drilling even longer wells under ground.

Doubling the lateral length of a well from the previous norm of about 5,000 feet, combined with other techniques, can make a well about four and a half times more valuable, said Herbert Vogel, SM Energy Co.’s executive vice president for operations, during a call last year after his company bought 35,700 acres in the Permian from QStar LLC.

Pioneer has added nearly 3 million lateral feet in the Permian by trading acreage with “all of our friends,” Tim Dove, the company’s chief executive officer, told Bloomberg TV in a December interview. At any given time, the company is working on 10 to 15 trade deals.

“Now the puzzle pieces are moving,” Parsley’s Sheffield said. “We just need to help each other.“

—With assistance from Alix Steel.

Newest Texas Refineries Plan to Turn Fuel Into Gas for Mexico

Posted March 29, 2017, 01:18 P.M. ET

By Sheela Tobben

The newest oil refineries in Texas are looking to join the hottest two plays in the North American oil industry.

Raven Petroleum LLC and MMEX Resources Inc. are building refineries in the Eagle Ford and Permian Basin that will process ample local supplies of light crude into gasoline and diesel. The fuel will be shipped on existing rail lines across the border to Mexico, where the government has opened the market to foreign competition, attracting companies including BP Plc and Glencore Plc.

U.S. shale drillers have doubled the number of rigs seeking oil since May, with most of the gains seen in Texas. Production nationwide is expected to approach the all-time high from 1970. At the same time, Mexico's gasoline demand is outpacing local supply, forcing the nation to increase imports, which government data show grew 3 percent year-on-year in 2016.

"It looks like they are a set of entrepreneurs that see opportunities in the refined fuels markets in Mexico as it's getting deregulated and denationalized," Neil Earnest, president of industry consultants Muse Stancil, said by phone from Dallas. "If you are sitting in Texas, you are sitting on low cost crude oil."

South Texas

The Woodlands, Texas-based Raven's proposed 50,000-barrel-a-day refinery, about 70 miles from the border in Duval County, will produce gasoline and low-sulfur diesel starting by early 2019, Christopher Moore, the company's managing director, said in a phone interview this week. MMEX Resources plans to build a similar-sized refinery in West Texas.

The refinery's location about 50 miles east of Laredo is close to its feedstock supply from the Eagle Ford shale, as well as to the market for its products in Mexico, he said.

The Mexican government has been taking steps to deregulate its fuels market, with the latest measure being phasing out government-set pump prices. Mexico's fuel prices rose by about 20 percent on average in January as the government raised the maximum pump price. The price increases were part of reforms to open state-owned Petroleos Mexicanos's monopoly to foreign competition and lure in private investment.

"Demand for fuels in Mexico is growing at over 3 percent per year," Moore said. "A constrained market won't be resolved internally, so it will have to import as they are doing now."

Increasing Thirst for Groundwater Seen Threatening Agriculture

Posted March 29, 2017, 02:24 P.M. ET

By Jonathan Tirone

The increasing thirst of farms for groundwater is depleting resources the size of Lake Erie each year, threatening to collapse agriculture and trade when the supplies run dry, researchers from the U.S. and Japan concluded.

Droughts in recent years have prompted farmers to tap aquifers to water their fields at a quicker pace in the past decade, depleting 241 cubic kilometers (68 cubic miles) in 2010, the latest year data was available, according to the research due to be published March 30 in the peer-reviewed journal Nature.

"This depletion of the largest liquid freshwater stock on Earth threatens the sustainability of food production and water and food security, not just locally, but also globally via international food trade," according to the team of scientists, which included Yoshihida Wada and Michael Puma, both of whom analyze water data for the U.S. National Aeronautics and Space Administration's Goddard Institute.

Underground aquifers that take thousands of years to accumulate their water supplies have allowed countries to ride out dry weather conditions and maintain food production. Now, farmers from California to China and Saudi Arabia are bumping into the limits of their reserves.

"Surface water availability is expected to become more variable with climate change and the depletion of groundwater reserves will make it more," the scientists wrote in Nature.

The research has already been presented to the World Bank, and the data is also being discussed at this week's Intergovernmental Panel on Climate Change in Mexico, according to Wada.

"We are increasingly concerned by the global impacts of local groundwater depletion," Wada wrote in an email reply to questions from Jalisco, Mexico, where he's taking place in IPCC talks. "So far, the focus on groundwater management is on producers like local farmers" but the data should also "raise more awareness of consumers of agricultural products."

Global Droughts Are Intensifying

The countries exporting the most crops produced with nonrenewable groundwater are Pakistan, India and the U.S., according to the study, which found that rice, wheat, cotton, corn and soybeans are the commodities most likely to benefit from unsustainable irrigation.

To reach their conclusions, the scientists used crop production data compiled by United Nations Food and Agricultural Organization inside a water-resource software model. They created an "origin-tracing algorithm to identify export flows," according to the paper.

"Our research shows that unless both consumers and producers agree to adopt strategies that maximize the long-term sustainability of water use, most of the world's population risks seeing increased food prices or disrupted food supply," wrote Carole Dalin, a co-author at the University College London's Institute for Sustainable Resources. "Under future climate change, droughts may be more frequent in many regions and we may want to keep groundwater reserves for these periods."

The researchers suggested the introduction of "water labels" in supermarkets that would help consumers identify if agricultural products were grown using sustainable practices.

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Will Wade

Restore Protections to Waterways, Committee Tells Trudeau

Posted March 29, 2017, 03:36 P.M. ET

By Jeremy Hainsworth

Waterways affected by pipelines, power lines and other projects could see renewed protections in Canada as the Trudeau administration looks to reinstate legislation removed by the previous administration, a spokeswoman said March 28.

A parliamentary committee publicly sent 11 recommendations to the Trudeau administration March 27 asking to restore federal protections to all waterways through the Navigation Protection Act. The act currently only covers 162 of "the largest and busiest waterways and their tributaries," according to a report by the Standing Committee on Transport, Infrastructure and Communities.

These are navigable waters supporting busy commercial or recreation-related navigation, are accessible by ports and marinas and are often close to heavily populated areas. With environmental assessment requirements no longer triggered automatically for projects not on the schedule, critics charged waterways not on the list were not protected and susceptible to environmental damage.

The Conservative Party government of previous Prime Minister Stephen Harper and many stakeholders found that "delays and uncertainty created by the existing approval process discouraged public and private sector investments in works in and around navigable waters," the report said.

The length of time and expense of Canada's environmental assessment process prior to companies even applying for permits and licenses has been a source of contention for business for years.

The Conservative Party countered the committee's findings, saying the "exercise was a screen for the minister to make unilateral changes to the legislation under the guise of having consulted Parliament," about the changes.

More Voices in Selecting Waterways

The report suggested Ottawa add more voices to the process of selecting waterways to protect, including provinces, territories and aboriginal groups.

The government should also include Transport Canada in decision making for environmental assessments of pipelines and electrical transmission lines crossing navigable waters, the report said. Previous Prime Minister Stephen Harper's administration had delegated that authority to the National Energy Board.

The report also said Transport Canada should be required to provide reasons why a waterway was or was not added to the schedule, and should form a dispute resolution mechanism to handle complaints.

"The recommendations will inform future decisions, however it is too early to indicate what changes will be made," Transport Canada spokeswoman Sau Sau Liu told Bloomberg BNA March 28.

The government has 120 days starting March 23 to respond to the recommendations, Liu said.

Following Up on Campaign Promises

Prime Minister Justin Trudeau made protecting freshwater and oceans a priority in his October 2015 election campaign, and later sent a mandate letter to the minister of Fisheries and Oceans that included reviewing the previous administration's changes to the act, restoring lost protections and incorporating modern safeguards.

Critics called the act's removal a destruction of environmental protections, but Randy Christensen, a lawyer for environmental law group Ecojustice, tells Bloomberg BNA that the report's suggested changes don't go far enough.

Christensen said the committee's report "more or less recommends keeping the regime that the Harper government had in place."

But, Christensen said, requiring Transport Canada to be a part of the approvals process adds another voice to decision making—if the agency has enough staff to assess any project or use posing risks to a waterway.

Mercedes Hastens Electric-Car Rollout as Combustion Era Fades

Posted March 29, 2017, 11:23 A.M. ET

By Elisabeth Behrmann

Mercedes-Benz is accelerating plans to introduce a suite of battery-powered cars by three years in a race to meet tighter emissions rules as European buyers turn away from fuel-efficient diesel cars.

In a 10 billion-euro ($10.8 billion) project, the world's largest luxury-car maker intends to roll out 10 new electric vehicles by 2022, compared with the 2025 target announced at the Paris auto show in September. The expedited time frame reflects the urgency facing carmakers as they brace for a shift away from traditional automotive technologies. Combustion engines would continue to be refined for a "transitional period," Mercedes parent Daimler AG said on March 29.

"We want to shape the profound transformation of the automotive industry from the forefront," Daimler Chairman Manfred Bischoff said in a statement at the company's annual shareholder meeting in Berlin. "Further fundamental changes will be required for Daimler to remain successful," as the industry adjusts to cars running on electric motors and capable of driving themselves.

The faster pace comes as the car industry battles with a backlash against diesel cars stemming from Volkswagen AG's cheating scandal. Daimler has also been embroiled in increased scrutiny of the technology with German prosecutors investigating the Stuttgart-based automaker's employees over diesel-manipulation allegations. The technology is key for meeting increasingly stringent rules for lowering carbon-dioxide emissions.

Flat Emissions

After achieving steady reductions in CO2 emissions in previous years, Daimler struggled in 2016 with levels in Europe steady at 123 grams per kilometer as buyers favored larger vehicles. In its home region, Daimler needs to achieve a level of 100 grams per kilometer by 2021 or face heavy fines.

German diesel demand in December fell to the lowest level since September 2010, accounting for 43 percent of total sales, according the Center for Automotive Research at the University of Duisburg-Essen. Early signs of carmakers shifting focus from combustion engines are showing, Germany's IG Metall union said after conducting a survey of manufacturers and suppliers in Daimler's home state of Baden-Wuerttemberg.

"Among development teams, especially in diesel, there are signs there's less to do as electrification is starting to have an impact," Roman Zitzelsberger, a union representative on Daimler's supervisory board, told reporters in Berlin March 28. "We found there are fewer follow-up requests and general degree of activity."

Cargill Link to Anti-GMO Group Spurs Criticism from Farmers

Posted March 29, 2017, 01:30 P.M. ET

By Jen Skerritt, Shruti Date Singh and Megan Durisin

Cargill Inc.'s efforts to supply food companies with non-genetically modified ingredients have come under attack from the other side of its business: farmers.

In common with several other large agribusinesses, Cargill is adapting to a shift in consumer taste toward more products labeled non-GMO. And just like those companies, it too has agreed to allow the Non-GMO Project, a U.S. non-profit group, to verify some of its supplies to ensure they're free of ingredients such as modified soy and corn.

But in recent days, Cargill, the country's largest private company, has found itself on the defensive against criticism on social media over the relationship.

The source of the controversy is the Non-GMO Project's position that there's no scientific consensus on the safety of GMOs. That's contradicted by reports from National Academies of Sciences, Engineering and Medicine and the American Medical Association, who say GMO crops pose no more risk to human health than any other crops.

Some farmers are unhappy that Cargill is endorsing a group so clearly opposed to GMO crops, which account for the vast majority of soybeans, corn and canola grown in North America.

"It's a slap in the face," said Chris Allam, a farmer who grows 6,000 acres (2,428 hectares) of canola near Fort Saskatchewan, Alberta. "I have a problem with Cargill dealing with someone who is staunchly against it."

Monsanto Comment

Cargill announced its partnership with the Non-GMO Project in October, and said earlier this month it got verification for several additional ingredients, including Stevia sweeteners and soybean oil.

The company is far from alone in working with the Bellingham, Washington-based group. Bunge Ltd., another large U.S. agricultural trader and processor, has had the group verify some milled corn ingredients and oils. In Canada, the group verifies canola oils produced by Viterra Inc., Glencore Plc's agricultural unit.

Still, it's Cargill's arrangement that has stirred up a lively debate. Robb Fraley, chief technology officer at Monsanto Co.—the world's largest supplier of GMO seeds—weighed in last week on Twitter, saying he understands Cargill's intent to support farmers and consumer choice, but also asking why the company is working with an "anti-science" group.

"I can understand why this feels threatening," Megan Westgate, executive director of the Non-GMO Project, said in an interview. "There's a big paradigm shift happening. The largest food companies in the world are looking for non-GMO ingredients and that's really changing the supply chain."

Consumer demand for non-GMO food has risen exponentially and the Non-GMO Project's mission is to make sure people have choices and options, she said. The group offers the only established, third-party non-GMO certification in North America and currently has 43,623 products verified to its standards.

Growing Population

"Some of the farmers' concerns are well-founded, in that the Non-GMO Project is not an unbiased, non-aligned, independent lab," said Peter Golbitz, founder of Estero, Florida-based Agromeris, a consulting firm for specialty agriculture products and ingredients. "Their true intent is to discredit GMO technology and to drive fear into consumers and the supply chain."

Cargill says modified crops and non-GMO ingredients can co-exist, and that GMO technology is safe and plays a critical role in feeding a growing population. The company doesn't share the non-GMO project's position on GMOs, said Randy Giroux, vice president of food safety, quality and regulatory affairs.

"There's no bigger supporter of farmers and GMO technology than Cargill," Giroux said in a statement. "Like many other companies, Cargill's affiliation with the Non-GMO Project is strictly limited to its rigorous verification process. Since there is no Federal standard for non-GMO products in the U.S., companies like ours use private standards that the market recognizes."

Ingredion Inc., a U.S. producer of ingredients such as starches and sweeteners, says it had few alternatives to working with the Non-GMO Project. The group has verified 57 ingredients for the company, according to an Ingredion statement.

'Politically Charged'

"We are not making a statement that one or the other is bad," Igor Playner, the company's vice president of innovation for North America, said in a telephone interview on March 27, referring to the debate over GMOs and non-GMOs. "There is demand for everything."

Archer-Daniels-Midland Co., a U.S. agricultural trader and processor, handles both modified and unmodified crops, but hasn't sought certification from the Non-GMO Project, company spokeswoman Jackie Anderson said in an email.

While there's no issue with providing the consumer with more information from a third party, growers are upset Cargill is working with a "politically charged" activist group with an anti-GMO view that's not based on logic or science, said Allam, the farmer in Alberta. GMO crops help boost yields and allow growers to better control grasses and other weeds with less chemicals and tillage, he said.

"I'm quite disappointed in Cargill's position," said D'Arcy Hilgartner, a farmer who grows canola on his family farm near Camrose, Alberta. "It's like using Cargill money to fight against the good work growers are doing."

--With assistance from Jack Kaskey.